

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 8625

INFO ALL EC CAPITALS 517

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: FURTHER DEVELOPMENTS ON PROPOSED SWISS ENTRY INTO THE SNAKE

REFS: A. EC BRUSSELS 2527

B. EC BRUSSELS 2391

1. SUMMARY: CENTRAL BANK EXPERTS DISCUSSED LAST WEEK SWISS CONDITIONS FOR ENTRY INTO THE "MINI-SNAKE". THESE DISCUSSIONS INDICATE THAT THE EC MEMBER STATES HAVE NOT ARRIVED AT A CONSENSUS ON ENTRY TERMS AND MORE TIME FOR DISCUSSIONS WILL BE REQUIRED. ALTHOUGH SWISS AUTHORITIES CONTINUE TO EVINCE INTEREST IN JOINING, SWISS OFFICIALS HERE REPORT NO DECISIONS HAS YET BEEN TAKEN TO APPLY FORMALLY FOR ENTRY. END SUMMARY.

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2. EC COMMISSION OFFICIALS INFORMED US OF THE RESULTS

OF THE EXPERTS' MEETING (HEYVAERT GROUP) OF THE EC CENTRAL BANKERS' COMMITTEE IN BASEL LAST WEEK (SEE REF A). THIS GROUP PUT ASIDE "POLITICAL PROBLEMS" FOR THE EC CENTRAL BANK GOVERNORS TO CONSIDER ON APRIL 8 AND FOCUSED EXCLUSIVELY ON TECHNICAL ISSUES. THE EXPERTS REPORTEDLY CONCLUDED THAT IT WAS TECHNICALLY FEASIBLE FOR THE SWISS TO ENTER THE SNAKE BUT THE DISCUSSION INDICATED THAT SEVERAL EC MEMBER STATES WANTED TO CHANGE THE CONDITIONS FOR A COUNTRY TO BECOME ASSOCIATED WITH THE SNAKE.

3. THE BELGIANS PROPOSED THAT THE SNAKE'S MARGINS BE EXPANDED FROM 2.25 TO 4.5 PERCENT. THE FRENCH INDICATED THAT THIS PROPOSAL MIGHT BE ACCEPTABLE, BUT THE GERMANS AND DUTCH OBJECTED. THE DANES PROPOSED THAT ASSOCIATED STATES SHOULD HAVE NO LIMITS ON THEIR VERY SHORT-TERM CREDIT LINES TO OTHER SNAKE MEMBERS. THESE CREDITS ARE USED TO HELP FINANCE INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET. THE EXPERTS REPORTEDLY AGREED TO THIS PROPOSAL.

4. THE BELGIANS ALSO PROPOSED THAT ASSOCIATE MEMBERS SHOULD ENTER INTO A SHORT-TERM MONETARY CREDIT OPERATION WITH THE OTHER SNAKE COUNTRIES. THIS OPERATION WOULD BE SIMILAR TO THE EC SHORT-TERM CREDIT FACILITY UNDER WHICH PARTICIPANTS AGREE TO PROVIDE FINANCIAL SUPPORT FOR A THREE MONTH PERIOD WITH THE POSSIBILITY OF ONE THREE MONTH EXTENSION. (AN EXCEPTION WAS MADE FOR ITALY LAST YEAR WHEN ITS SHORT-TERM CREDIT WAS ROLLED OVER TWICE.) THIS PROPOSAL WAS SUPPORTED BY THE DANES, FRENCH, ITALIANS, AND COMMISSION. THE GERMANS AND DUTCH OBJECTED.

5. NO AGREEMENT WAS REACHED ON THE POSSIBLE ENTRY RATE OF THE SF. THE GROUP CONSIDERED USING AN AVERAGE OF THE RECENT SF RATE TO DETERMINE THE ENTRY RATE. THIS WOULD BE ABOUT 1.07 OR 1.08 SF TO THE DM. THE SF RATE WOULD BE TIED TO THE CENTRAL RATE OF THE SNAKE, RATHER THAN TO ITS UPPER OR LOWER LIMITS.

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6. COMMISSION OFFICIALS SAY SWISS CENTRAL BANK OFFICIALS EVINced STRONG INTEREST IN JOINING THE SNAKE AT THE MEETING. SWISS OFFICIALS HERE TELL US, HOWEVER, THAT THE GOS IS STILL JUST EXPLORING THE ENTRY CONDITIONS AND NO DECISION WILL BE TAKEN UNTIL THESE CONDITIONS ARE PRECISELY KNOWN. THE SWISS FINANCE MINISTRY REPORTEDLY HAS RESERVATIONS

OVER ENTERING THE SNAKE, IN PART BECAUSE IT CONSIDERS THE
SF TO BE OVERVALUED.

7. OFFICIALS HERE INDICATE THAT SEVERAL MEMBER STATES
SEEM TO HAVE MORE RESERVATIONS OVER SWISS ENTRY THAN
WAS REFLECTED IN THE FINANCE MINISTERS' DISCUSSION
ON MARCH 18 (SEE REF B). THE FRENCH ESPECIALLY SEEM
TO BE RECONSIDERING THE ADVISABILITY OF SWISS ENTRY
AT THIS TIME. BECAUSE OF THESE PROBLEMS, MOST
OBSERVERS HERE BELIEVE FURTHER DISCUSSIONS WILL
BE REQUIRED BEFORE THE EC MEMBER STATES CAN REACH AN
AGREEMENT ON THE SWISS ENTRY CONDITIONS. MYERSON

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